North Carolina Department of Health and Human Services
Division of Budget and Analysis
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Beverly Eaves Perdue, Governor
Lanier Cansler, Secretary   James B. Slate, Jr., Director
                                                  August 28, 2009

MEMORANDUM #2009-15

TO: Division Directors
              Division Budget Officers

FROM: Jim Slate

SUBJECT: SFY 09-10 Reductions to Meet 5% Reserve
             and DHHS Critical Needs

        In response to the Office of State Budget memorandum issued on August 14,
2009 requiring the creation of a 5% allotment reserve for SFY 09-10 and in response to
our continued need to meet ongoing shortfalls throughout the Department, we will need
to once again identify reductions to state appropriations from within our budgets.   The
5% reserve requirement (excluding DMA and Health Choice which will once again be
handled separately) equates to a Department-wide reduction of $75.4M. Our current
estimate of critical needs for SFY 09-10 is projected to be just under $29M.   Combined,
this creates an overall need to identify $104.3M in reductions to state appropriations
Department-wide.

        Given the size of the overall required reductions, we are currently in conversation
with the Office of State Budget to determine if any exceptions might be made for DHHS
reduction targets. Pending additional direction from OSBM, we will need for your
agency to detail reduction plans to cover both a high-end and a low-end target (attached).

        With the scope and the amounts of required funding reductions, for most
agencies, making reductions in the areas of services to local providers will be
unavoidable. However, you will need to assure that all reductions that can be taken from
administrative budgets are considered first. As you know, we have continued policies
restricting travel, purchasing and the hiring of personnel. Please consider savings which
will be generated from these restrictions when preparing your plan. Reductions to
programs areas may include contracts, allocations, special appropriations and other
program funds. You may also consider over-realized receipts, refunds and other sources

of this type with the exception of Prior Year Earned Revenue (PYER). PYER funding has already been considered to reduce the overall Departmental funding need.

We have attached a spreadsheet for the itemization of your proposed reductions. This is a modified version of the template that was utilized for each of the rounds of reductions in SFY 08-09. What has been added are two discrete sets of columns for you to detail amounts for your Division to meet both the low and high target amounts for your reductions. Additionally we have created two distinct columns for you to detail a description of each reduction option and the impact of this reduction if taken. We need for you to provide a high level of detail in both of these columns. Descriptions should be written so that when they are presented to Department management or to the Governor's Office that they will clearly describe what is being proposed and how it will impact the services that you provide.

Please submit your completed worksheets to your analyst in this office no later than close of business Wednesday, September 2nd. Please let us know if you have any questions relating to this assignment. After we have received all proposed reduction plans, we will review the plans with Department management prior to approval and implementation. Additional guidance will be forthcoming following these reviews. Obviously, we are aware of how challenging this effort will be given the reductions that we have taken to date. Staff in our office will be available to answer any questions that you might have or offer any guidance that you may require through this process. Thank you once again in advance for your assistance with this effort.

JBS:RK:gg

Cc: Lanier Cansler
       Dan Stewart
       Maria Spaulding
       Allen Feezor
       Jennifer Hoffman
       Budget Analysts